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THE EFFECTS OF A SYSTEM FOR DETERMINING
MILITARY PAY: ITS ANTICIPATED EFFECTS ON
PERSONNEL RETENTION IN THE NAVY

by

Lee Duane Crane

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THE HUBBELL SYSTEM FOR MODERNIZING MILITARY PAY:
ITS ANTICIPATED EFFECTS ON PERSONNEL
RETENTION IN THE NAVY

by

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INTRODUCTION

Background

In recent years, the Navy has become increasingly aware of its inability to retain sufficient high calibre personnel on active duty. In an effort to improve in the retention of officers and enlisted personnel, the Navy has, within the past ~~ten~~^{thirteen} years concentrated on a vigorous and comprehensive retention program. However, at a time when instant operational readiness is vital to fulfillment of our global security requirements, and the complexity of modern weapons and equipment has placed increased emphasis on technological competence, the program to retain the right kinds of trained personnel on active duty in the Navy has produced little in the way of tangible results; in fact, ~~re-enlistment rates have dropped 30 percent since 1962.~~¹

Decreasing retention rates have caused great concern in the Department of the Navy. Personnel retention has attracted considerable high level attention and, as a result,

¹"Re-up Rates Down 30 Percent Despite 40 Percent Pay Boost," Navy Times, Dec. 11, 1968, p. 1.

several detailed studies have been in this area in recent years. One of the ~~most~~ recent comprehensive studies, the "Alford Study," found that the Navy does indeed have a shortage of career personnel and that this shortage is affecting the capability of the fleet.¹ The problem is not simply a shortage that can be expressed as one overall number; it is a quality shortage and a quantity shortage that varies according to job and skill requirements.²

This study, like most of the others, found that the cause of these qualitative and quantitative shortages is an ineffective retention program.³ The Navy simply is not motivating sufficient numbers and the right kinds of personnel to choose Navy careers.

Why is the present retention program so ineffective? This thesis is based on the premise that money is a prime factor for a naval officer or enlisted man in deciding whether or not to embark on and continue in a naval career. There is probably no part of the military system that is as old and

¹U.S., Department of the Navy, Office of the Secretary of the Navy, Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. I, Ch. 1 (Washington, D.C.: Government Printing Office, 1966), pp. 12-13.

²Ibid.

³Ibid.

still as badly handled as the system for pay in the Armed Forces. The issues and arguments are as old as the country itself, the concepts as changing as the environment in which we live.

Military pay adjustments were ignored from 1958 until 1963 while the cost of living increased by 5.7 percent.¹ Since 1963, the Armed Forces have received a pay raise each year. Regular compensation has increased by 40 percent since 1963, yet, retention has not improved; in fact, it has declined.² It seems that simple across-the-board pay raises are not the answer. The retention program itself needs to be modernized, and military pay is a vital part of the program.

The Congress recognized the problem when it required that the President, by not later than January 1, 1967, ". . . direct a complete review of the principles and concepts of the compensation system for members of the uniformed services . . ."³

¹ U.S., Department of Commerce, Bureau of the Census, Statistical Abstract of the United States--1968 (89th ed.; Washington, D.C.: Government Printing Office, 1968), p. 341.

² "Re-up Rates Down 30 Percent," Navy Times, p. 1.

³ U.S., Congress, Public Law 87-649, Title 37--Pay and Allowances of the Uniformed Services, sec. 1008(b).

The President is also required, on completion of the review to ". . . submit a detailed report to Congress summarizing the results of such review together with any recommendations he may have proposing changes in the statutory salary system and other elements of the compensation structure provided members of the armed services."¹

The President directed the Secretary of Defense to conduct the review and he, in turn, formed the Military Compensation Policy Board. The Policy Board ^{was} ~~is~~ chaired by the Assistant Secretary of Defense (Manpower) and includes ^{as} ~~its~~ members the Assistant Secretary of Defense (Comptroller), the Under Secretaries of the Army, Navy and Air Force, the Military Personnel Chiefs of the Army, Navy, Air Force and Marine Corps, the Deputy Under Secretaries of the Army, Navy and Air Force, the Special Assistant to the Director, Bureau of the Budget, and the Director, Compensation and Career Development Branch of the Department of Defense (Rear Admiral Lester E. Hubbell, U.S.N.).

The working arm of the Policy Board ^{was} ~~is~~ the Compensation Study Staff directed by Rear Admiral Hubbell. This staff commenced operations in March 1966 with the objectives of analyzing and studying all aspects of military compensation

¹Ibid.

and recommending improvements to the Secretary of Defense, that:

provide fairness and equity to the military individual, the Government, and the taxpayer; and

should assist in attracting, retaining and motivating into the career force the kinds and numbers of personnel the uniformed services need.¹

The result has been a recommendation that Congress enact a revolutionary new compensation system which is based on an annual salary system which will replace the existing basic pay and allowances system. The Policy Board believes that this system, if approved by Congress, will have a significantly beneficial effect on the entire military manpower position of the Department of Defense.² The system has been unofficially named "The Hubbell Plan" in recognition of its architect, Rear Admiral Lester E. Hubbell, U.S.N.

Purpose and Research Questions

The purpose of this paper is to answer the question: Would implementation of the Hubbell Plan contribute to a more effective and efficient personnel program in the Navy? In arriving at an answer, it is necessary to consider the following

¹U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. xiv.

²Ibid.

subsidiary questions:

1. What specifically is the Navy's retention problem?
2. Is military pay a retention issue?
3. Why is pay a retention issue?
4. How would the Hubbell proposals correct the deficiencies in the existing system?
5. Do the proposals recommend a pay increase or would take home pay remain the same?
6. Would the improved pay system facilitate a more selective retention program?
7. Are there any limitations in what improved pay can do for retention?

Scope and Organization of the Study

There are literally hundreds of issues concerning military pay that are worthy of study. However, this paper is limited to issues considered, by the author, to be relevant to personnel retention in the Navy.

Chapter I establishes the need for a new compensation system by showing the relationship between military pay and personnel retention. In addition, the chapter contains an overview of the existing compensation system and its inadequacies.

Chapter II examines the retention features of the Hubbell proposals for modernizing military pay. The discussion in the chapter concerns structural changes in the compensation system.

Chapter III contains a dollar comparison of the pay that would be provided under the present pay system on July 1, 1969 and pay that would be provided should Congress approve the Hubbell Plan.

~~Chapter~~ IV evaluates the Hubbell Plan as a solution for the Navy's retention problem. The problem is clarified and the probable benefits and limitations are discussed.

~~Chapter~~ V contains the summary and the author's conclusions as a result of this study. *are solid*

The research for this paper was primarily conducted in the Department of Defense, the Bureau of Naval Personnel and the Naval Supply Systems Headquarters here in Washington, D.C. The sources used *in the paper* were almost entirely official government documents and *telephone* interviews with Department of Defense personnel; however, the opinions and conclusions expressed in this paper, except where acknowledged by footnoting, are those of the author.

CHAPTER I

THE NEED FOR ADEQUATE ACTIVE DUTY COMPENSATION

Pay and fringe benefits are tangible or extrinsic rewards for personal services rendered. As in private industry, they also include partial compensation for unusual hardship. However, in the Navy, as well as the other services, privation and arduous duty are an inherent part of life while in private industry, they are a more unusual occurrence. Frequent family separations, lack of opportunity for a reasonably normal social life, long work hours, working conditions that are often hazardous and lack of opportunities for off-duty education and employment require adequate compensation at a level comparable to wages and salaries paid in private enterprise. Among the services the Navy's personnel retention problem is currently the most acute.¹ Every study conducted in recent years has found the key problem to be a deficit in mid-range experience (personnel with 4-14 years experience). Table 1 summarizes the imbalances in the force structure on

¹Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. I, Ch. 1, p. 1.

June 30, 1965.

TABLE 1

MILITARY PERSONNEL IMBALANCES, JUNE 1965

Completed Years of Service	Officer Overage/Deficit	Enlisted Overage Deficit
0-3	+ 15%	+ 14%
4-14	- 25%	- 28%
15 & over	Even	+ 50%

Source: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. S-3

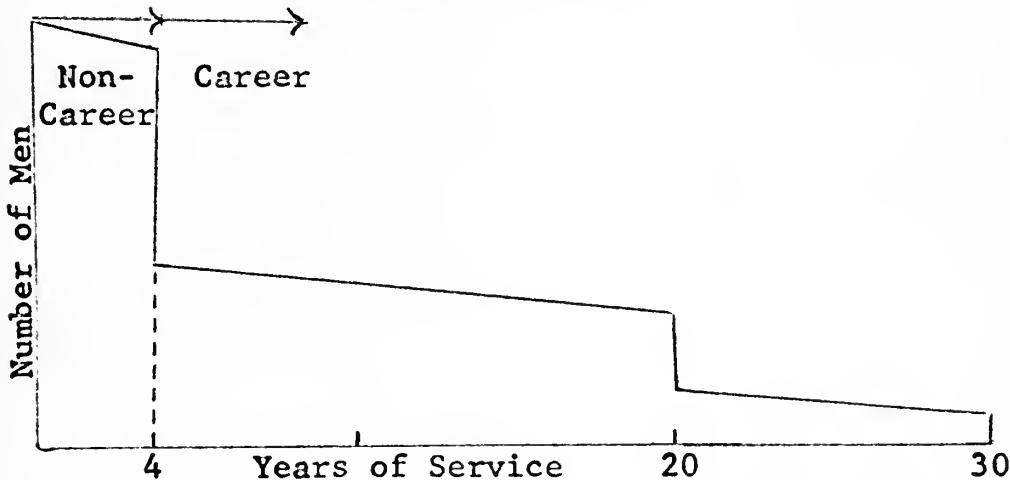
Table 2 illustrates the attrition of the Navy's manpower force and clearly shows that the greatest losses occur at the 4 and 20 year points which correspond to the end of a first enlistment and initial eligibility for retirement.

Pay is a Retention Issue

For years it has been assumed that the main reason people were not making the Navy a career was because the level of pay, as an incentive, was insufficient to motivate personnel to remain on active duty any longer than necessary. However,

TABLE 2

ATTRITION OF MANPOWER



Source: U.S., Department of the Navy, Office of the Secretary of the Navy, Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. I. (Washington D.C.: Government Printing Office, 1966), p. 4.

the issue was not completely clear since family separation, sea duty, frequent moving and other issues were considered to be important variables as well. As a result, several studies have been conducted recently to determine what officers and men consider to be the important factors in deciding whether to choose a Navy career or revert to civilian life. The fact that pay was considered important was not surprising, but the overwhelming response placing pay so far out in front of the many other considerations was surprising. The appropriate parts of three of these surveys are summarized below.

The Institute of Naval Studies conducted an officer study that requested personnel to indicate which of the thirteen incentives offered would motivate them to remain on active duty.¹ Six of the incentives were considered to be reasonably attractive. Table 3 shows that the top three attractions were compensation items: a 20 percent pay raise, compensation equal to civil service, and \$1000 per child per college year. The 20 percent pay raise was so attractive that 40 percent of those officers planning to leave the service would extend their active duty for the money differential.

The Institute of Naval Studies also conducted a survey of 10,000 enlisted personnel.² In this survey, 22 incentives were offered ranging from more prestigious uniforms to junior college. An offer of 2 years junior college in exchange for 4 years of service proved to be the most attractive. Other varieties of college proposals closely followed the top selection. A \$5,000 re-enlistment bonus also stood very high as a re-enlistment incentive. One can only speculate why junior

¹The Institute of Naval Studies (Center for Naval Analysis--Franklin Institute), "Manning Study Officer Survey," Philadelphia, 1965, pp. 1-5. (Mimeographed).

²The Institute of Naval Studies (Center for Naval Analysis--Franklin Institute), "Enlisted Retention Incentives," Philadelphia, 1964, pp. 1-10. (Mimeographed).

TABLE 3

ATTRACTIVENESS OF INCENTIVES FOR OFFICERS¹
IN 25-27 YEAR AGE GROUP

Incentive ²	Percent who say they would extend active duty when Present Intention is:		
	Retire at 20	Undecided	Leave
20% Pay Raise	74.9	68.0	40.6
Compensation = Civil Service	69.5	65.6	39.7
\$1000/Child/College Year	56.9	52.8	26.2
Sea and Shore Specialization	45.5	41.6	35.6
Improved Living Quarters	47.3	36.8	18.1
4-6 Year Home Continuity	26.5	38.0	27.1

¹Officers of different designators, family status and career intentions.

²Incentives designed to appeal primarily to officers who are undecided about a career, who intend to leave active duty as reserves, or who intend to retire after 20 years of service.

Source: The Institute of Naval Studies (Center for Naval Analysis - Franklin Institute), "Manning Study Officer Survey," Philadelphia, 1965, p. 5.

college proposals stood very high, but it is very likely that money was the prime factor for even junior colleges require cash for tuition, books, board and room.

The Bureau of Naval Personnel's Personnel Research Activity questioned 16,126 enlisted personnel, most of whom were in their first enlistment concerning policy changes that would influence them to remain on active duty.¹ Both career and non-career decided personnel were questioned and compared with respect to their opinions. As shown on Table 4, pay and allowances led the list of possible policy changes that would have the greatest effect on their career decisions.

The Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention also conducted a survey.² Selected Navy personnel attended seminars and answered questionnaires concerning retention. The findings supported the results of previous surveys in that the individuals as a group considered pay and allowances to be very important and that retention

¹U.S., Department of the Navy, Bureau of Naval Personnel, Navy Personnel Survey 64-1 (Washington, D.C.: Government Printing Office, 1965), p. 3-8.

²U.S., Department of the Navy, Office of the Secretary of the Navy, Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. IV, Ch. 14 (Washington, D.C.: Government Printing Office, 1966), p. 2.

TABLE 4

ONE MAIN CHANGE WHICH WOULD MAKE THE NAVY MORE ATTRACTIVE

Response Choices	Career Intentions			Years of Service		
	Career	Unde- cided	Non- Career	Under 6	6 or More	Total
Increased Pay and Allowances	32%	27%	23%	25%	40%	31%
More Opportunity to Choose Assignments	18	18	17	17	17	17
More Time at Home	08	09	14	12	12	12
Better Use of One's Abilities	09	13	14	14	07	11
Provide Better Leaders	06	08	14	12	08	10
More Opportunity for Advancement	10	07	04	05	08	07
More Opportunity to Attend Tech. Schools	11	12	06	08	03	06
Better Government Housing	03	01	01	01	02	01
More Interesting Work	01	02	02	02	00	01
Other Change	02	03	05	04	03	04

Source: U.S., Department of the Navy, Office of the Secretary of the Navy, Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. IV, Ch. 14 (Washington, D.C.: Government Printing Office, 1966), p. 97.

could be improved significantly by improving the level of pay in the Navy.

Pay represents more than just the ability to buy material goods and services. Whyte states: ". . . the workers position . . . is a function of two factors: his economic status and his social status."¹ He defines economic status as earnings.² He goes on to say,

Social status is a more complex item and is not so readily defined. We mean by social status the prestige people attach to jobs . . . This prestige comes from skill required by the job, from its importance in the production process, from the seniority that people have to have in order to hold the job, from the money the job pays, and from other factors.³

It is important to note that pay affects a man's economic status and social status which, in turn, determine his position in society. A Navy man's desire for status is no different than a civilian's and military pay, just like civilian pay, plays an important role in determining positions in the status structure.

The Navy, unfortunately, cannot pay enough money to be completely selective. As a result, other benefits are

¹William F. Whyte, Money and Motivation (New York: Harper and Row, 1955), pp. 222-3.

²Ibid.

³Ibid.

used in an effort to stay competitive with private enterprise and to keep its people satisfied.

The Existing Compensation System

The salary paid employees is not a complete description of the costs the employer incurs or the benefits the employee receives as a result of the employee contract in modern compensation systems. Military, civil service and typical private enterprise systems provide payments and benefits in addition to the salary. The summation of salary plus other payments and benefits can be called "total compensation."

Different combinations of a wide variety of items have been treated as compensation at one time or another in the military. There is no generally accepted definition of those payments and benefits which comprise total compensation. The Hubbell Staff found it necessary to construct a definition for total military compensation. This definition stated that a compensation item both costs the government money and is of value to the recipient in one or more of three ways: (1) it adds cash to his current income; (2) it permits him to realize a current net cash savings; or (3) it creates a present value to him based on the prospect of a future receipt.¹

¹U.S., Department of Defense, Report of the First

In conjunction with constructing this definition, the Hubbell Staff classified military pay into three categories:

1. Regular compensation--the permanent components of income received by all personnel each pay period.
2. Special and premium pays--taxable cash pays that depend on special occupational qualifications or duty performance.
3. Supplemental benefits--retirement, survivor and health benefits, etc.¹

Regular compensation

Under the existing pay system in the military, regular compensation is made up of four separate components: basic pay, quarters allowance, subsistence allowance and the Federal income tax advantage on non-taxable quarters and subsistence allowances. Regular compensation is the equivalent of civilian salary excluding any retirement contribution; that is, it provides a salary definition comparable to that of the Federal civil servant after the 6.5 percent deduction for the Civil Service Retirement Fund.² It has been regularly used by the House Committee on Armed Services under the title of "regular military compensation."

Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. II, Appendices I-IX (Washington, D.C.: Government Printing Office, 1967) p. 17.

¹Ibid, p. 18.

²Ibid, p. 20.

Basic pay is a taxable cash payment that varies according to the pay grade and longevity of the recipient. It accounts for about two-thirds of an individual's salary and one-half of his total compensation, and it is the major compensation element in the military pay system.

Quarters allowance is provided to the member either in cash or in kind. Quarters-in-kind is government provided housing. Payments in cash are those specified, non-taxable rates which vary according to the pay grade and are disbursed in full to the member.

Subsistence allowance may also be provided to the member either in cash or in kind. All officers are paid a monthly rate of \$47.88. Enlisted personnel are usually provided rations-in-kind in military messes, or they are permitted to mess separately and draw a cash allowance in lieu of food. In either case the compensation value is based on the government's raw food cost.

Tax advantage is a military compensation item because the quarters and subsistence allowances are non-taxable. The tax advantage is the amount of additional cash income that a serviceman would need in order to have the same take home pay he now has were his whole salary subject to Federal income taxation.

The amount of tax advantage pertaining to a specific amount of nontaxable allowances will vary according to family size because dependency status and the associated tax exemptions influence income tax liability. Nontaxable income provides a bigger tax saving to a man with one or two dependents than to an individual with six tax exemptions. Therefore, to determine its total value, tax advantage must be calculated for each pay grade, longevity step and family size.

Thus, regular compensation, as explained above, depends not only on pay grade and longevity step, but also on family size and whether a member is residing in government furnished quarters or drawing quarters allowance.

Special and premium pays

These pays can generally be categorized as occupational or contingency pays. As the name implies, occupational pays are awarded to individuals possessing skills in occupations where personnel shortages exist. Contingency pays are those which are contingent upon the individual performing some specified form of duty (such as hazardous duty), or enduring some unusual living condition (such as sea duty). The existing pays are:

1. Medical, dental and veterinary pay--for officers possessing these professional skills to induce them to remain on active duty.
2. Proficiency pay--is paid to enlisted men possessing critical skills where training time is long and costly and retention rates are low as a device to encourage reenlistment.
3. Regular reenlistment bonus--is paid to enlisted personnel who reenlist as an incentive for doing so.
4. Variable reenlistment bonus--is for enlisted personnel in skill areas where critical deficiencies exist as a device to encourage reenlistment selectively; this bonus is paid in addition to the regular reenlistment bonus, but is paid only for the first reenlistment.¹

The contingency pays are

1. Incentive pay (hazardous duty)--encompasses several pays, the purpose of which is to provide officer and enlisted personnel an incentive to volunteer for hazardous duty. Examples are flight pay, submarine duty pay, carrier flight deck duty pay and demolition duty pay.
2. Diving duty pay--is payable to both officer and enlisted personnel to encourage voluntary participation in a hazardous occupation.
3. Hostile fire pay--is paid only to those individuals assigned to duties where they are subject to death or injury due to enemy action and only during the periods they incur such a risk.
4. Sea and foreign duty pay--is a special pay for enlisted personnel assigned to shipboard duty or duty in designated foreign stations.
5. Separation pays--include lump sum terminal leave pay, reserve readjustment pay, failure of promotion severance pay and disability pay. The first example compensates the individual for leave earned but not taken while the other examples are intended to compensate the individual for the financial disadvantages of involuntary severance from military employment.

¹Ibid, pp. 28-31.

Supplemental benefits

The remaining elements of military compensation are grouped under supplemental benefits. They may be received in the form of cash, a service that would otherwise cost them money or a savings opportunity.

Current year retirement accruals are neither a present payment nor a current budget cost to the government; yet, they properly are classified as compensation. They represent an estimate of value is based upon actuarial assumptions such as mortality rates, retention rates and fluctuations in force size.

Dependency and indemnity compensation includes payments made to the survivors of military personnel who die in the line of duty or from injuries sustained while on active duty. The estimated value of future benefits is considered compensation.

Death gratuities are lump sum payments made to the beneficiaries of members who die while on active duty. This item is also considered to be compensation.

Social Security contributions by the government to the Social Security Fund represent compensation. Since the Social Security program is an insurance program, the government's

contribution creates a present value to the member based on the prospect of future benefits.

Medical care for dependents and servicemen is compensation. As compensation, it is valued at the cost to the government of all dependent care and care for the members which did not result from the hazards of military duty. The costs of providing medical care for training and battle connected injuries are excluded from compensation.

Commissary and exchange privileges are one of the most controversial elements of compensation. They are usually overestimated by civilians and underestimated by the military. These privileges provide an opportunity for military members to purchase merchandise at lower prices than they would pay in the civilian market. The savings realized are difficult to estimate and depend on many variables. The cost the government incurs in operating these facilities have long been considered to be a part of compensation. If they are ever put on a self-supporting basis, this element will disappear entirely from military compensation.

Inadequacies of the Present Pay System

As previously pointed out, personnel retention is a problem in the Navy--particularly in the 4-14 year experience

group. Servicemen themselves say that inadequate compensation is a major cause of the problem. Navy personnel lack confidence in the present pay system because:¹

1. It is complex and confusing.
2. It does not reward men equitably.
3. It cannot be compared and adjusted equitably in relation to trends in civilian earnings.

There are 26 separate elements that make up military pay and, while an individual is usually not entitled to all of them, this fragmented military compensation system does confuse the typical serviceman. It is doubtful that as many as 1 percent of the individuals in the Navy know how to compute the value of their compensation and those that do, have no way of comparing their earnings with the earnings of their private enterprise and civil service counterparts.

The Navy recently, in a Louis Harris survey, asked officer and enlisted personnel who were just completing their initial tour of duty (potential careerists) to estimate their military earnings. They consistently underestimated earnings throughout a military career by 10 to 24 percent.²

¹U.S., Department of Defense, Commanders Digest, Vol. 4 No. 32, "Hubbell Pay Review Findings Released by Defense Department" (May 11, 1968), pp.3-4.

²U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing

The Hubbell Staff conducted a survey of banks and finance companies to ask how financial institutions valued military compensation for lending purposes. Interestingly enough, they found that these institutions underestimated actual salaries by 50 percent for an E-3, 34 percent for an O-1, 13 percent for an E-7 and 4 percent for an O-6.¹

The fragmentation of military pay leads to confusion; however, another reason why military pay is undervalued results from the numerous ways in which it is received. Unlike the civilian, who receives most of his compensation in the form of taxable cash, the serviceman receives less than 60 percent of his compensation in that form.² Table 5 shows the methods of payment and their relative impact on total military compensation.

In addition to being complex and confusing, another related problem is that military salaries do not reward career men equitably. As shown above, less than 60 percent of military compensation is related to services performed. The remainder is determined by dependency status, whether the

Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. S-5.

¹Ibid, p. S-7.

²Ibid.

TABLE 5
MILITARY COMPENSATION

Method of Payment	Percent of Total
Taxable Cash	58.8
Nontaxable Cash Allowances	11.5
Allowances-in-Kind, Nontaxable	8.7
Savings (Medical, Tax Advantage, etc.)	9.5
Deferred Compensation (Retirement Social Security, etc.)	11.5
TOTAL	<u>100</u>

Source: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office), p. S-5.

member is provided his allowances-in-kind or draws them in cash and whether he stays to collect retirement. For example, an E-5 with eight years service receives a salary in the following range:

Bachelor living on base	\$4,647
Bachelor living off base	5,412
Married man living off base	5,859
Married man in Government Quarters . . .	6,264

Allowances, such as housing and subsistence allowances, bear little relationship to actual costs and have been adjusted infrequently in the past 25 years despite a considerable increase in the cost of living. Quarters allowances have been adjusted three times since 1946, while basic pay has been adjusted eleven times (five times since 1963).¹ The typical family living off base spends considerably more than their quarters allowance for housing. The one-third of our career families who can be housed on base forfeit only their quarters allowance and consequently are generally subsidized compared to those who live off base. For example, this writer's housing costs in the Washington, D.C. area are \$260 a month. A Lieutenant Commander who is able to get government quarters gives up \$145.10 a month--his quarters allowance.

¹Ibid, p. S-7.

The imputed retirement contribution is considered to be a part of total salary for all members; however, only 46 percent of career enlisted and 18 percent of all officers, career and non-career, will retire and realize a benefit in return for this invisible deduction.¹ Hence, it discourages mid-length careers and does not become a positive incentive factor until about the eighth year.² Then, it tends to lock people in the Navy until they retire--most of them at the 20 year point.

The third problem is that it is difficult, if not nearly impossible, to compare military pay to civil service and private enterprise salaries. When it has been compared, as accurately as possible, it has been found to lag considerably behind civilian and civil service salaries. This lag will be discussed in the next chapter.

The existence of numerous pay elements, many of which are hidden or partially hidden from the eyes of all but the experienced analysts, makes a true comparison by the typical serviceman impossible. When he does make a comparison, which he frequently does when trying to decide whether to remain

¹Commanders Digest, "Hubbell Pay Finding Released,"
p. 4.

²Ibid.

in the service, he invariably underestimates his military salary. He generally sees his salary as the amount he reports for income tax purposes or the sum of his pay checks received during the year. Civilian employment opportunities will generally appear, on the surface, to be more rewarding financially than a career in the Navy.

CHAPTER II

THE HUBBELL PROPOSALS FOR A NEW COMPENSATION SYSTEM

For the past three years, servicemen have become familiar with the name "Hubbell Plan" and the rumor that a revolutionary new compensation system is being proposed for the uniformed services. Few people, however, including the very concerned military careerists, really have knowledge of what the new system would mean to them. Variations of the same question have been asked over and over again, "How will the Hubbell proposals affect my pay now and when I retire?" At the same time, worried military managers are asking the question, "Will the Hubbell System help us bolster our sagging personnel retention programs?" The many questions that have been asked actually relate to one central question, "What is the Hubbell Plan for modernizing military pay?"

A general answer to that central question is that the Hubbell proposals encompass two separate and distinct compensation systems--one for men who are making military a career

(careerists) and one for men who are discharging their military obligations (noncareerists).

The typical noncareerists are young (average age 20), single (84 percent have no dependents), and are in the process of discharging their military obligations (80 percent will return to civilian life after the completion of an initial enlistment and less than 10 percent will serve to retirement).¹ Most of their enlistments are spent in training or deployed in operational units. The pressure of the draft indirectly assures the Navy of having adequate numbers of enlistees, as many young men would rather spend three years in the Navy than two years as a draftee in the Army.

Most noncareerists are fed, housed, clothed and provided medical and dental care in Government facilities in the interest of economy, convenience and often times, due to necessity. In return for their essential services, our society assumes the responsibility of compensating them fairly and equitably in relation to their civilian counterparts who do not serve. Fairness and equity are the major considerations in determining their compensation, supply and demand are secondary factors to be considered.

¹Commanders Digest, Hubbell Pay Findings Released,"
p. 1.

The typical careerists, on the other hand, are older (average age 30), married (83 percent have dependents), and live in private housing (67 percent of those with dependents live in private housing).¹ Thus, most of them have the same family related financial responsibilities as their civilian counterparts. There is no assured supply of careerists as there is of noncareerists. In fact, there is but one source, recruitments from the noncareer force. Training, experience and education make them difficult to replace and, at the same time, afford them excellent opportunities for jobs in private enterprise.

The issue of voluntary commitment to military service is a major consideration when determining compensation for these men. Fairness and equity as well as supply and demand are central issues in determining compensation for careerists. Private enterprise competes with the Government for the services of these trained men, so the compensation system must take on the added burden of doing its part to attract, retain and motivate the right kinds of people. At the same time, the compensation must be fair and equitable in the interest of simple justice.

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 8.

Under the Hubbell Plan, the compensation distinctions between the careerists and the noncareerists are: (1) the nature of the individual commitments to military service and, (2) the manner in which their compensation is received.¹

Most careerists are family men and thus, receive most of their compensation in cash. A pertinent and major consideration must be the ability of the Government to provide housing. Prior to World War II, most servicemen were provided Government housing, but today, only one-third of the married men have this benefit. Yet, the compensation system has not been adjusted to keep pace.

A vast majority of the noncareerists are single men who live on bases or ships, and therefore, they receive a large part of their income in kind.

Obligatory service is generally accompanied by considerable compensation in kind. Voluntary service usually goes hand-in-hand with receiving largely cash compensation.

Noncareer Compensation System

The noncareer force was defined by the Policy Board to include all military personnel in the pay grades E-1, E-2, E-3, those personnel in the pay grades E-4 and E-5 with less

¹Ibid, p. 9.

than two years service and those in pay grades E-4 and E-5 with between two and four years service and a total active duty commitment of less than six years.¹

As previously explained, the basic necessities are usually provided to these men by the Government in kind. This practice, while it is old enough to be a part of military folklore, is still appropriate due to the nature of the activities of men in their initial enlistments--mostly training and deployed operations. Cash compensation includes basic pay after taxes. This money can be spent for other than basic necessities in accordance with individual desires. In the few cases where necessities are not furnished in the form of tax-free allowances. In addition, married noncareerists are paid quarters allowance.

This concept of compensation assures adequate care for these young single servicemen. This method of providing the basic requirements for health and welfare necessary for the performance of rigorous duties, is in the best interests of the men and the military units to which they are assigned. Since 84 percent of the noncareerists have no dependents, this is appropriate thinking.

¹Commanders Digest, "Hubbell Pay Findings Released", p. 1.

This system, as pointed out in Chapter I, does not lend itself to easy comparisons of military pay to the pay of the noncareerists' civilian counterparts. There are two obvious alternatives to this system. One would be to estimate the value of the items furnished in kind and attribute it to total salary.¹ The other would be to pay a total salary and collect for the items furnished in kind.²

Estimation of items furnished in kind would create more confusion and controversy than now exists. What is the value of a bunk in a 30 man living compartment aboard a destroyer? Payment from a total salary would necessitate huge budgetary expenditures and create an administrative burden of collecting for items furnished in kind.

The Hubbell proposals reflect a decision to avoid the issues by recommending that noncareerists be neither charged for nor credited with the value attached to income furnished in kind. Their proposal focuses on disposable income after taxes and provisions for necessities. The recommendation is

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 12.

²Ibid.

for the adoption of two standards for minimum non career residual income to insure that satisfactory service does not involve economic penalty. The standards are:

Standard I--Minimum Wage Floor

Military pay rates should be such that, regardless of pay grade or longevity step, a noncareer member's residual income would at least equal the average residual income of a single male civilian employed full time who is earning the legal minimum wage.¹

Standard II--Parity with Civilian Counterpart

Military pay rates should be such that the residual income of the noncareer member whose performance is fully satisfactory is at least equal to the average residual income of his civilian counterpart, defined as a single male high school graduate of the same age who is employed full time in the civilian economy.²

The Hubbell Staff applied these standards to the existing compensation structure for noncareerists and found the rates of pay to be adequate.³ What is adequate today, however, may not be adequate tomorrow in our dynamic economy. Future adjustments will be necessary as the cost of living rises and promotion opportunities in the military change.

Another recommendation worthy of note in this paper, is that the name "basic pay" be changed to "personal money

¹Ibid, p. 13.

²Ibid.

³Ibid, p. 14.

pay."¹ The reason behind this recommendation is that people would then be less likely to compare it to civilian salaries. While this recommendation might seem insignificant and just another change in military "jargon" its impact would probably be tremendous.

In summary, according to the Hubbell Report, the existing principles, concepts and rates of pay are equitable for the noncareer force. Application of the recommended standards would insure fair and equitable treatment of noncareer members by avoiding possible economic penalty. Income received in kind would be adjusted as required to continue providing the necessary goods and services regardless of Government cost. The cash portion of total compensation would be adjusted to keep pace with changes in the private sector. Family allowances, which would still be paid to the few noncareerists with dependents, would be adjusted to reflect increases in rents in the civilian economy. Rent is the major additional expense incurred by members with dependents. Thus, total noncareer compensation would be kept abreast of trends in the private

¹U.S., Department of Defense, Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs), What Should Military Pay Reform Mean to You? (Washington, D.C.: Government Printing Office, 1969), p. 19.

sector and thereby insure fairness, equity and attainment of noncareer pay standards.

Career Compensation System

Improvement in the compensation system for noncareerists is important in the interest of justice; however, improvement in the compensation system for careerists is also vital to this nation's security.

Noncareerists were defined in the last section; careerists constitute the remainder of the military force (48 percent of the total).¹ All officers, all personnel in pay grades E-6 and above, all E-4s and E-5s with over four years service, and all E-4s and E-5s with between two and four years service and a six year active duty commitment are defined as careerists.²

The most significant finding in the entire Hubbell study is that a basic overhaul in career force compensation is needed to attain the objectives specified by the Secretary of Defense. Both the system and levels of compensation are attacked as being inadequate.

p. 1. ¹Commanders Digest, "Hubbell Pay Findings Released,"

²Ibid, p. 2.

The existing compensation system was appropriate for the period in which it was designed because it was related to the pay conditions that existed then. But, times have changed markedly, both in the private sector and in the military. The compensation system just has not kept pace. The many shortcomings of the existing basic pay and allowances system were explained in Chapter I. The following is an overview of the Hubbell proposals for improving the career compensation system and the rationale behind them.

Salary system

One major shortcoming of the existing system is that it is complex and confusing because of its myriad of pays, allowances, and hidden elements (e.g. tax advantage and retirement contribution). The lack of a standard and accepted definition of what constitutes total compensation contributes to the confusion. A second major shortcoming identified in Chapter I, is that the system is inequitable. Compensation depends on pay grade dependency status and the availability of Government housing, not on the work done or job held.

The conclusions that the existing pay system is no longer compatible with military environment led to the recommendation:

That for the career force, the five separate compensation elements of (1) basic pay, (2) quarters allowance (cash or furnished), (3) subsistence allowance (cash or furnished), (4) the Federal income tax advantage realized on nontaxable quarters and subsistence allowances and, (5) the imputed retirement contribution be incorporated into a schedule of full salaries based only on pay grade and years of service for pay.¹

This recommendation means that all careerists would be paid a fully taxable salary, just as most civilians now are. The same salary would be paid to all members of the same rank and with the same years of service for pay regardless of dependency status. This total salary would be subject to Federal income tax.

Fair rental for Government housing would be paid either in cash or by payroll deduction. The amount of rent would be the lower of: (1) the fair rental value as determined for each location or, (2) the 75th percentile of the housing expense for FHA mortgage holders with equal salary.² The upper limit would protect families who are placed in Government quarters that exceed their needs. There would be no charge for shipboard or field accommodations; barracks and bachelor officer quarters rates would be arrived at by applying

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 55.

²Ibid, p. 56.

the same procedures to determine rental rates for family dwellings.

Government furnished subsistence would also be paid for in cash or by payroll deduction. The rate would be: (1) the raw food cost when the member has no option but to buy (aboard ship), or (2) the raw food cost plus reasonable preparation and serving charges when the member does have an option.¹ Estimating preparation and serving charges would be difficult; however, guidance could be obtained by relating charges to the nonprofit and nonfood charges of similar non-military food service operations (e.g. university cafeterias).

In addition, a vested contribution of 6.5 percent of full salary would be made to military retirement by all careerists.² Retirement pay will be discussed in more detail later in this chapter.

These changes would undoubtedly improve the visibility of pay and remove the existing inequities as well. In short, the changes outlined above would cure two of the three major ills afflicting the present compensation system.

¹What Should Military Pay Reform Mean to You?, p. 10.

²Ibid.

Quantitative standard

Probably the most important deficiency in the existing system is the lack of an agreed upon quantitative standard for relating military to civilian salaries. There is no standard to facilitate comparisons between military pay, Federal civilian and private enterprise salaries. Most careerists, and military managers for that matter, do not know how pay rates are set or how pay raises are computed. It is inevitable then that the system, as it exists, lacks credibility in the eyes of servicemen.

The basic policy standard for military pay was recommended by the Hook Commission in 1948 and generally accepted by the Congress in the Career Compensation Act of 1949.¹ Military pay was to be equivalent to pay in the civilian economy except at the highest grades where it was to be equivalent to Federal civil service pay.

Since then, the policy has been reaffirmed many times by the President and by the Congress. However, the policy is meaningless unless the servicemen themselves are convinced that it is translated fairly into pay.

¹U.S., Department of Defense, Advisory Commission on Service Pay, Career Compensation for the Armed Forces (Washington, D.C.: Government Printing Office, 1948), p. 159.

Lacking a quantitative pay standard, military pay increases have followed a dreary path of consistently lagging behind Federal civilian increases. From 1945 to 1965, Federal civilian salaries were increased by 173.1 percent while military compensation was increased by 137.1 percent.¹

Another result of having no quantitative standard is that there has been no consistent practice for computing the value of military pay increases. The base to which adjustments have been applied has varied from one raise to the next. Sometimes the base will be basic pay, sometimes it will be quarters allowance and then again it might be total compensation, whatever that is. In some instances, pay raises have been computed as a percentage of total compensation but applied to basic pay. In other instances, they have been computed as a percentage of total compensation but applied to basic pay. In other instances, they have been computed as a percentage of basic pay and applied to total compensation. There are many other variations of past practices which confuse the issue even more. Why are so many inconsistent methods used? Congress does not know why, military managers do not know why, so certainly the confused serviceman cannot be expected to know why.

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 58.

Still another result of the lack of a quantitative pay standard is the ineffective use of pay raises. Frequently they have been used to improve retention in the lower pay grades; however, some have necessarily been used to reduce the compression in the pay structure caused by such raises. In the past five years, there has been no selectivity applied and annual adjustments have been fixed percentage across-the-board increases.

Finally, because members do not understand how their pay is arrived at, the whole system lacks credibility.

It is inevitable that servicemen, like their civilian counterparts, will make frequent comparisons between their pay and that of their civilian contemporaries, especially when deciding whether to make the military a career. Most members do not recognize all of their compensation. The result is usually the decision that the private sector is much more rewarding economically.

Servicemen must be assured that their pay is set and kept on a par with their counterparts in other employment. An explicit quantitative standard that applies not only to the total system, but to each pay grade in the system is necessary to facilitate comparisons. Confidence in procedures is vital to any pay system. This confidence must come from being able to see the announced principle of equality applied to equality at the pay table.

Two quantitative standards for military pay were developed recently completely independently of each other. While both approaches produce nearly the same results, the concepts and methods differ considerably.

Cohort standard

The first approach, called the Cohort standard, uses the same criteria as Federal wage board surveys.¹ It is based on estimating the civilian earning opportunities of military personnel. This standard is derived by measuring the earnings of a group of civilians (cohorts) who share a specified set of pay related characteristics with servicemen in a particular pay grade.

The basic assumption behind the Cohort standard is that military and civilian work are so different that meaningful comparisons are impracticable. We can, however, collect statistics and compute the level of pay that applies to a group of civilian veterans with the same pay related characteristics; in other words, the best estimate of what careerists would be making if they were civilians. This approach proceeds from the judgment that since it is impracticable to pay the careerists

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 63.

for work they do, they should be paid in accordance with what they could have earned as civilians. There are few markets for officers who command destroyers or men who fire and maintain 16 inch guns, but there are markets for men with the same pay related characteristics such as age and education. This method, even though it involves continued statistical computation, provides a rational quantitative standard by avoiding rather than solving the problem of comparing military to non-military work.

The Cohort standard is compared to the other approach, the Work Level standard, later in this chapter.

Work Level standard

While the Cohort standard avoids the issue, the other standard, called the Work Level standard, attacks the comparability issue.¹ The premise here is that military and nonmilitary work are not different enough to preclude comparison. The Work Level standard asserts that while some military jobs are unique and that certain characteristics of military life (e.g. discipline and lack of a defined work week) make it different, the technologically modern military does have jobs similar to

¹ Modernizing Military Pay, Vol. II, Appendices I-IX, p. 75.

jobs in private enterprise. All the services, and the Navy is no exception, have occupational classification systems which integrate the work and pay relationships of purely military functions into a unified personnel structure. Many of the work functions can be evaluated by civilian work standards. Therefore, this standard asserts, it is not necessary to measure the work of all military jobs by civilian standards, it is only necessary to measure those jobs which can be measured adequately. The military occupational and classification systems can be used to extend the results into the jobs that are solely or predominantly military functions.

The first step in the Work Level approach is the application of civil service job evaluation techniques to military jobs at selected grades.¹ Based upon these evaluations, the military structure and the civil service structure are then linked. In applying this standard, the Hubbell Staff found that valid linkage points are O-8 with GS-18, O-1 with GS-7 and E-3 with GS-3 (white collar) and WB-5 (blue collar).²

The next step is to derive the appropriate intergrade pay distinctions between the linked military grades by

¹Ibid.

²Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 69.

analyzing the work relationships among grades.¹ The chain of command and its influence on work spans must be included in the analysis. Table 6 illustrates the results of applying this standard to military officers.

The Work Level standard uses techniques that are used and widely accepted in determining Classification Act (civil service) pay and in linking the Foreign Service and Postal Service structures to it.² The Classification Act structure is, in turn, linked to the private sector through the use of annual Bureau of Labor statistics.

Comparison of the standards

Both standards were applied to compare military pay to Federal civilian and private enterprise pay. The Cohort standard was used to compare private enterprise to military pay and the Work Level standard was used to compare civil service to military pay. The results of both tests were similar enough to reinforce the age-old contention that military pay lags behind both private enterprise and Federal civilian pay. Table 7 shows the results of application of the Cohort standard. The test indicated that military pay lags behind private

¹Ibid, p. 71.

²Ibid, p. 69.

TABLE 6

MILITARY-CIVIL SERVICE WORK SPAN COMPARISONS

Military Officer	Civil Service General Schedule
O-8	GS-18
O-7	GS-17
O-6	GS-16
O-5	GS-15
O-4	GS-14
O-3	GS-13
O-2	GS-12
O-1	GS-11
	GS-10
	GS-9
	GS-8
	GS-7

Source: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. 72.

TABLE 7

MILITARY CAREER FORCE LAG BEHIND COHORT PARITY

Pay Grade	Average Salary Required for Parity with Cohort	Adjusted Average 1 October 1967 Military Salary ¹	Difference \$	%
O-10	\$40,138	\$35,614	\$4,524	11.3%
O-9	34,602	31,070	3,532	10.2
O-8	29,324	27,151	2,173	7.4
O-7	28,559	23,562	4,997	17.5
O-6	24,287	19,724	4,563	18.8
O-5	19,759	16,670	3,089	15.6
O-4	15,201	13,736	1,465	9.6
O-3	11,188	11,403	-215	-1.9
O-2	8,353	8,852	-499	-6.0
O-1	7,700	6,615	1,085	14.1
Comm Off	\$12,435	\$11,528	\$ 907	7.3%
W-4	\$15,473	\$12,904	\$2,569	16.6%
W-3	11,836	10,887	949	8.0
W-2	10,151	9,310	841	8.3
W-1	8,459	8,217	242	2.9
Warr Off	\$10,595	\$ 9,694	\$ 901	8.5%
All Off	\$12,319	\$11,412	\$ 907	7.4%
E-9	\$12,050	\$10,633	\$1,417	11.8%
E-8	9,670	9,301	369	3.8
E-7	8,112	8,191	-79	-1.0
E-6	7,271	7,134	137	1.9
E-5	6,552	5,918	634	9.7
E-4	5,830	5,123	707	12.1
Career EM	\$ 6,927	\$ 6,472	\$ 455	6.6%

¹Proposed 1 October 1967 regular military compensation rates adjusted to reflect imputed retirement credit of 6½% of salary, where salary equals regular military compensation plus

retirement contribution (salary = regular military compensation/.935).

Source: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. 68.

enterprise pay by 7.2 percent overall with officer, warrant officer and enlisted pays lagging by 7.3, 8.5 and 6.6 percent respectively.¹ Table 8 shows the results of application of the Work Level standard. This test indicated that military pay lags behind Federal civilian pay by 7.4 percent overall with officer, warrant officer and enlisted pays lagging by 7.4, 8.3 and 5.4 percent respectively.²

The similarity of the findings lends confidence to the accuracy of the results and it seems to indicate that either standard would be acceptable. Certainly, either one is better than having no standard at all--which is the present situation. However, each standard does have its advantages and disadvantages.

The extensive coverage of the Cohort system and the massive averaging required make it a good method for establishing the general structure of military pay. The possibility

¹Ibid, p. 68.

²Ibid, p. 75.

TABLE 8

MILITARY CAREER FORCE LAG BEHIND CIVIL SERVICE PARITY

Pay Grade	Average Salary Required for Parity with Civil Service	Adjusted Average 1 October 1967 Military Salary ¹	Difference \$ %	
0-10	\$33,791	\$35,614	\$-1,823	-5.4%
0-9	30,144	31,070	-926	-3.1
0-8	27,055	27,151	-96	-0.4
0-7	25,356	23,562	1,794	7.1
0-6	22,387	19,724	2,663	11.9
0-5	18,709	16,670	2,039	10.9
0-4	14,858	13,736	1,122	7.6
0-3	11,737	11,403	334	2.8
0-2	9,327	8,852	475	5.1
0-1	7,548	6,615	933	12.4
Comm Off	\$12,444	\$11,528	\$ 916	7.4%
W-4	\$15,126	\$12,904	\$ 2,222	14.7%
W-3	12,431	10,887	1,544	12.4
W-2	10,029	9,310	719	7.2
W-1	8,406	8,217	189	2.2
Warr Off	\$10,568	\$ 9,694	\$ 874	8.3%
All Off	\$12,325	\$11,412	\$ 913	7.4%
E-9	\$11,330	\$10,633	\$ 697	6.2%
E-8	9,432	9,301	131	1.4
E-7	8,219	8,191	28	0.3
E-6	7,242	7,134	108	1.5
E-5	6,356	5,918	438	6.9
E-4	5,865	5,123	742	12.7
Career EM	\$ 6,843	\$ 6,472	\$ 371	5.4%

¹Adjusted to reflect imputed retirement credit of 6½% of military salary.

Source: U.S., Department of Defense, Report of the First Quadrennial Review of Military Compensation, Modernizing Military Pay, Vol. I, Active Duty Compensation (Washington, D.C.: Government Printing Office, 1967), p. 75.

of bias or distortion is reduced by the comprehensiveness of the process and the reliance on actual earnings of a representative part of the civilian labor force--former military people.

The characteristics that make the Cohort standard a good measure of overall comparability, also make it a poor vehicle for making internal pay distinctions among pay grades. Intergrade differentials would be influenced by forces at work in the economy which do not necessarily correspond to internal work distinctions among military grades. Because the Work Level standard deals with the issue of work spans as a part of its basic analysis, it is a much better vehicle for dealing with the kinds of internal pay distinctions that exist in military organizational structures.

The Cohort standard is better suited for establishing the general structure for comparing military pay with pay in the private sector. The main disadvantage of the Work Level standard is its dependence on somewhat arbitrary linkages between a few military and civil service pay grades to locate

the payline.¹ If one linkage is wrong, then not only that pay grade but much of the payline would be out of place.

Both approaches are reasonable and certainly better than no standard at all. The Hubbell proposals endorse the Work Level standard because:

1. The lag is less under it than under the Cohort standard (a hedge against overstating the problem).
2. The procedure for handling internal pay distinctions is clearly superior.
3. The application of the same process by the same employer in setting both military and civil service pay would contribute greatly to the overriding objective of having a pay standard--pay system credibility.²

The Work Level standard promises to get faster and better support from careerists, military managers and the Congress because it is used now in a system successfully. A new concept would require extensive explanation and defense. It would be subject to suspect from the very beginning and the questions and controversy would continue.

¹ A payline is a series of rates, with one rate from each grade and with all rates having a common meaning to each grade. It serves primarily to define the pay distinctions between grades.

² Ibid, pp. 77-8.

Retirement Pay

The Hubbell proposal to convert the military pay system to a salary system from the existing basic pay and allowances system necessitates a proposal to change the procedure for computing retired pay as well. The existing method of determining retired pay by taking a fixed percentage (based on years of service) of basic pay obviously could not be used because basic pay would disappear.

In addition, military management has suspected, for some time, that the retired pay system is not doing an adequate job in our modern military--it discourages rather than encourages mid-length careers.¹ As indicated earlier, retired pay does not become a positive incentive for retention until about the eighth year of service because it is largely hidden. Equally undesirable, it then tends to lock people in the military until they can retire--most at the 20 year point.²

Another problem noted by Admiral Hubbell is that the present system does not provide sufficient income for retired personnel when they need it the most--when they are over age 55 and usually "in fact" retired. He recently said:

p. 4. ¹Commanders Digest, "Hubbell Pay Findings Released,"

²Ibid.

Because nearly all military retirees get second jobs, the present annuity is more than adequate in the years immediately after retirement. This makes it very attractive for most people to retire as soon as they can--and the majority do just this. But as wage levels go up in the civilian economy, the level annuity falls further and further behind, so that by the time a man is "really retired" (at about age 55-60), the military annuity is often not enough to provide an acceptable full retirement income.¹

He went on to say:

Yet we can't justify paying annuities high enough to be adequate for the full retirement of 55 to 60-year-old-men to people about 40 years old who are really just changing jobs . . . The present level annuity is too often more than adequate first, then too often less than adequate in later years; but the first fact prevents us from curing the second problem. The way out of this box is to pay one adequate annuity (Step 1) from the time a man first retires until he reaches age 55 to 60, then pay a higher annuity (Step 2) adequate for real retirement for the rest of his life and protect the purchasing power of both by raises that match increases in the cost of living.²

The Hubbell proposals include three major changes to correct these problems.

First, since basic pay would disappear, retirement would be computed as a percentage of the high year's average salary.³

¹Bob Schweitz, "Retiree Proposals," Navy Times, Jan. 8, 1969, p. 8.

²Ibid.

³What Would Military Pay Reform Mean to You?, p. 20.

Second, instead of level monthly payments that are adjusted only for cost of living increases, the proposed retirement annuities would be paid in two steps, both of which would be adjusted for cost of living increases:

1. Regular Retired Pay (Step 1) would be payable on retirement and until the member reaches age 55 to 60, depending on the years of service at retirement (age 60 for 20 years service, age 59½ for 21 years and so on to age 55 for 30 years service).
2. Increased Retired Pay (Step 2) is designed to provide a fully adequate annuity that would be paid after age 55-60 when the member is usually "in fact" retired and will not have income from a second job.¹

Finally, in place of the present inferred charge of 6.5 percent of basic that a man never sees or gets back unless he retires, and the deduction for social security, (presently 4.8 percent of the first \$7,800 of basic pay), the new contribution would be 6.5 percent of total salary which would include the social security contribution.² The difference between the 6.5 percent of full salary and the social security contribution would be deposited in the members vested retirement account. Should the member not serve to retirement, the value of the man's account would be refunded. If he should

¹Ibid, p. 21.

²Ibid.

die prior to collecting the value of his account, the balance of the account would be paid to his survivors.

Under the new system, the social security income would be considered to be a part of Increased Retired Pay (Step 2) and not an additional annuity. However, social security eligibility earned prior to conversion to the new system or from private employment would not be affected.

The proposed retirement system seems to be the most controversial part of the Hubbell Plan. The controversy apparently stems from a lack of knowledge about the proposals due to a lack of publicity and the feeling that adoption of a new retirement system for those already committed to a military career is a "breach of faith." A recent issue of Navy Times, an unofficial but highly regarded weekly tabloid that contains the latest "Navy news, contained many letters to the editor that would seem to express the feelings of most of our Navy careerists.

One letter, written by CWO-4 C.A. Devine USN says, "The Hubbell Pay Plan: What is it? Why is it? Does anyone other than Admiral Hubbell know?"¹

¹"Mail Call," Navy Times, Nov. 20, 1968, p. 19.

Another letter, written by Lt. B. L. Seaton, U.S.N. says, "We who are near retirement are violently opposed to any retirement legislation of any kind which does not contain an option of retiring under the new plan or the one which was the inducement for our choice of a Naval career."¹

As previously indicated, one of the reasons for the controversy is poor publicity. The servicemen just have not been adequately informed as to what management is proposing concerning their pay.

Another influence in the controversy is man's tendency to resist change.² This resistance applies to military pay as well as other changes.

Despite the controversy, the Hubbell proposals recommend what appears to be a much more realistic retirement system. It is similar to the Civil Service retirement system and, like the active duty compensation system, this similarity would help promote its credibility.

¹Ibid.

²Timothy W. Costellow and Sheldon S. Zalkind, Psychology in Administration (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963), p. 195.

CHAPTER III

A DOLLAR COMPARISON OF THE TWO PAY SYSTEMS

An improved pay system that makes total compensation more visible and easier to understand is a matter of vital concern to military careerists. Adoption of a quantitative pay standard to insure military/civilian salary parity is also a very important issue in the eyes of most careerists. The most important issue, is however, "What would conversion to the Hubbell Plan mean in take home dollars?" A related issue of major concern to careerists is, "How would the Hubbell proposals affect retirement pay--in dollar terms?"

This chapter presents quantitative comparisons between the existing pay system and the Hubbell proposals for both active duty pay and retirement pay. The dollar amounts shown in this paper for the Hubbell system are the amounts that have been recommended for July 1969 implementation. The dollar amounts shown for the existing system are the present rates of pay adjusted to reflect a 12.6 percent increase in basic pay. A 12.6 percent across-the-board raise is law and it most likely will go into effect in July 1969 unless Congress

acts to supersede the legislation by approving the Hubbell Plan.

Active Duty Compensation

A representative selection of typical pay situations is presented for comparison of the Hubbell system (salary system) and the present pay and allowances system. Tables 9 through 16 illustrate these situations in detail. As previously indicated, it is necessary to include the legislated 12.6 percent across-the-board pay raise to permit a meaningful comparison. The debate in Congress will be Hubbell Plan versus the 12.6 percent pay raise.

Federal income tax is a substantial deduction from most members' gross pay. The amount of tax paid depends on many variables such as outside income, method of computing deductions and many more. While the author recognizes these variables, it would be impossible to present all the possibilities in this paper. Therefore, Federal Income tax computations are based on the assumptions of no outside income and use of the standard deduction.

Petty Officer Third Class (E-4, Over 4 years, 1 Dependent)

Table 9 illustrates the pay situation for a man that fits this pay description. He probably sees his pay as being

\$3,668.41 (reported for income tax purposes), or \$5,928.51 (including quarters allowance), or \$5,410.31 (if he receives and recognizes subsistence allowance as part of his nontaxable income). It is very unlikely that he would recognize the tax advantage and the imputed retirement contribution. Under the salary system, he would clearly see that his annual income is \$6,441.00. Take home pay would be \$4,927.95 under the present system and \$5,288.92 under the salary system. In addition, the man would have made a vested retirement contribution for the year of \$109.50 which would be returned to him should he choose to terminate his service short of retirement. The important points are that the man would be able to clearly see his annual salary, and he would receive an increase in take home pay of \$360.97 per years.

Petty Officer Second Class (E-5, Over 8 years, 3 Dependents)

Table 10 shows the pay situation for a man fitting this pay description. He most likely would see his gross pay as either \$4,568.40, or \$5,918.40, or \$6,400.20 under the present system. Under the salary system, gross income of \$7,003.00 would be plainly visible. Take home pay would be approximately the same under both systems.

Petty Officer First Class (E-6, Over 10 years, 3 Dependents)

Table 11 illustrates that the probable estimates of annual pay for a man fitting this description would be \$5,196.72, or \$6,513.92, or \$6,995.72 under the present system. His gross pay would actually be \$7,667.51 under the present system or \$7,734.00 under the salary system. A shift to the salary system would mean an increase in take home pay of \$94.83 per year and a contribution to vested retirement of \$131.48 per year.

Chief Petty Officer (E-7, Over 12 years, 3 Dependents)

Table 12 shows that in this pay situation, a man would in all likelihood estimate his annual pay to be \$6,003.36, or \$7,382.16, or \$7,863.96 when it really would be \$8,613.18. The salary system would clearly display this man's salary as being \$8,721.00. Conversion to the salary system would mean an annual increase in take home pay of \$133.75 and a vested retirement contribution of \$192.47 per year.

Lieutenant (O-3, Over 4 years, 2 Dependents)

Table 13 illustrates this pay situation. An officer fitting this pay description would undoubtedly estimate his annual pay as either \$9,348.05 (basic pay as reported for income tax purposes), or \$11,483.21 (recognizing quarters and

subsistence allowances). His salary would actually be \$12,591.83 under the present system. The salary system recommends an annual salary of \$12,753.00. Conversion to the salary system would result in an increase in take home pay of \$172.67 and an annual vested retirement contribution of \$454.55.

Lieutenant Commander (O-4, Over 14 years, 3 Dependents)

A man with this pay description, as shown on Table 14, would usually estimate his annual income as being either \$11,800.08 or \$14,115.28 if he recognizes his allowances for quarters and subsistence. His actual annual salary would be \$15,568.25 under the present system. Under the salary system his salary would be a completely visible \$17,027.00. Adoption of the salary system would result in an increase of \$917.52 per year in take home pay in addition to a contribution to vested retirement of \$732.36 per year.

Commander (O-5, Over 18 years, 4 Dependents)

Table 15 illustrates this pay situation. Under the present system, an officer with this pay description would usually estimate his annual pay as being \$14,195.71, or \$15,950.27 if he adds annual quarters and subsistence allowances. Actually, his annual gross pay would be \$18,347.99. Under the salary system, it would be \$20,514.00. This change

would result in an increase in take home pay of \$1,539.82 and a vested retirement contribution of \$959.01 annually.

Captain (O-6, Over 26 years, 4 Dependents)

As shown on Table 16, a man with this pay description would usually estimate his annual pay as being either \$18,553.32 or \$21,311.05. The salary system would clearly show a salary of \$26,705.00 for this man. Conversion to the salary system would result in an increase in take home pay of \$2,147.35 per year as well as a contribution to vested retirement of \$1,361.43.

While each of these illustrations describes the situation for married men, bachelors would benefit even more. Their salaries would be the same as those for married men because salary, under the new system, would be based only on pay grade and longevity. Family size, which influences current "salary" through quarters allowance and tax advantage, would not be a consideration in setting new salaries.

Retired Pay

Chapter II described the proposed two-step retirement system that is part of the Hubbell proposals and the theory, which is sound, behind it. Once again, however, the careerists are most interested in dollar comparisons.

TABLE 9

COMPARISON OF THE TWO PAY SYSTEMS--PETTY OFFICER THIRD CLASS
(E-4, OVER 4 YEARS, 1 DEPENDENT)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$3,668.51	
Quarters	1,260.00	
Subsistence ²	481.80	
Tax Advantage ³	266.00	
Imputed Retirement Contribution	238.45	
 TOTAL Gross Pay or Salary	 <u>\$5,914.76</u>	 <u>\$6,441.00</u>
<u>Deductions</u>		
Federal Income Tax	\$ 306.27	\$ 733.41
Tax Advantage	266.00	
Social Security Contribution	176.09	309.17
Retirement Contribution	238.45	109.50
 TOTAL Deductions	 <u>\$ 986.81</u>	 <u>\$1,152.08</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$4,927.95</u>	 <u>\$5,288.92</u>
 VESTED RETIREMENT	 None	 \$ 109.50

¹Reflects 12.6 percent pay raise for FY 1970.

²Computed at \$1.32 per day.

³Assume no additional income and use of the standard deduction.

TABLE 10

COMPARISON OF THE TWO PAY SYSTEMS--PETTY OFFICER SECOND CLASS
(E-5, OVER 8 YEARS, 3 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$4,568.40	
Quarters	1,260.00	
Subsistence ²	481.80	
Tax Advantage ³	269.00	
Imputed Retirement Contribution	296.95	
 TOTAL Gross Pay or Salary	 <u>\$6,876.15</u>	 <u>\$7,003.00</u>
<u>Deductions</u>		
Federal Income Tax ³	\$ 339.85	\$ 715.51
Tax Advantage ³	269.00	
Social Security Contribution	139.28	336.14
Retirement Contribution	296.95	119.06
 TOTAL Deductions	 <u>\$1,045.08</u>	 <u>\$1,171.01</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$5,831.07</u>	 <u>\$5,831.99</u>
 VESTED RETIREMENT	 None	 \$ 119.06

¹Reflects 12.6 percent pay raise for FY 1970.

²Computed at \$1.32 per day.

³Assume standard deduction, no additional income.

TABLE 11

COMPARISON OF THE TWO PAY SYSTEMS--PETTY OFFICER FIRST CLASS
(E-6, OVER 10 YEARS, 3 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$5,196.72	
Quarters	1,321.20	
Subsistence ²	481.80	
Tax Advantage ³	330.00	
Imputed Retirement Contribution	337.79	
 TOTAL Gross Pay or Salary	 <u>\$7,667.51</u>	 <u>\$7,734.00</u>
<u>Deductions</u>		
Federal Income Tax ³	\$ 334.33	\$ 720.51
Tax Advantage ³	330.00	
Social Security Contribution	249.44	371.23
Retirement Contribution	337.79	131.48
 TOTAL Deductions	 <u>\$1,251.56</u>	 <u>\$1,223.22</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$6,415.95</u>	 <u>\$6,510.78</u>
 VESTED RETIREMENT	 None	 \$ 131.48

¹Reflects 12.6 percent pay raise for FY 1970.

²Computed at \$1.32 per day.

³Assume standard deduction, no additional income.

TABLE 12

COMPARISON OF THE TWO PAY SYSTEMS--CHIEF PETTY OFFICER
(E-7, OVER 12 YEARS, 3 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$6,003.36	
Quarters	1,378.80	
Subsistence ²	481.80	
Tax Advantage ³	359.00	
Imputed Retirement Contribution	390.22	
 TOTAL Gross Pay or Salary	 <u>\$8,613.18</u>	 <u>\$8,721.00</u>
<u>Deductions</u>		
Federal Income Tax ³	\$ 450.73	\$ 895.31
Tax Advantage ³	359.00	
Social Security Contribution	288.16	374.40
Retirement Contribution	390.22	192.47
 TOTAL Deductions	 <u>\$1,488.11</u>	 <u>\$1,462.18</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$7,125.07</u>	 <u>\$7,258.82</u>
 VESTED RETIREMENT	 None	 \$ 192.47

¹Reflects 12.6 percent pay raise for FY 1970.

²Computed at \$1.32 per day.

³Assume standard deduction, no additional income.

TABLE 13

COMPARISON OF THE TWO PAY SYSTEMS--LIEUTENANT
(O-3, OVER 4 YEARS, 2 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$ 9,348.05	
Quarters	1,560.60	
Subsistence	574.56	
Tax Advantage ²	501.00	
Imputed Retirement Contribution	607.62	
 TOTAL Gross Pay or Salary	 <u>\$12,591.83</u>	 <u>\$12,753.00</u>
<u>Deductions</u>		
Federal Income Tax ²	\$ 1,116.52	\$ 1,759.09
Tax Advantage ²	501.00	
Social Security Contribution	374.40	374.40
Retirement Contribution	607.62	454.55
 TOTAL Deductions	 <u>\$ 2,599.54</u>	 <u>\$ 2,588.04</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$ 9,992.29</u>	 <u>\$10,164.96</u>
 VESTED RETIREMENT	 None	 \$ 454.55

¹Reflects 12.6 percent pay raise for FY 1970.

²Assume standard deduction, no additional income.

TABLE 14

COMPARISON OF THE TWO PAY SYSTEMS--LIEUTENANT COMMANDER
(O-4, OVER 14 YEARS, 3 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$11,800.08	
Quarters	1,740.60	
Subsistence	574.60	
Tax Advantage ²	629.00	
Imputed Retirement Contribution	822.01	
 TOTAL Gross Pay or Salary	 <u>\$15,568.25</u>	 <u>\$17,027.00</u>
<u>Deductions</u>		
Federal Income Tax ²	\$ 1,231.80	\$ 2,491.08
Tax Advantage ²	629.00	
Social Security Contribution	374.40	374.40
Retirement Contribution	822.01	732.36
 TOTAL Deductions	 <u>\$ 3,057.21</u>	 <u>\$ 3,597.84</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$12,511.64</u>	 <u>\$13,429.16</u>
 VESTED RETIREMENT	 None	 \$ 732.36

¹Reflects 12.6 percent pay raise for FY 1970.

²Assume standard deduction, no additional income

TABLE 15

COMPARISON OF THE TWO PAY SYSTEMS--COMMANDER
(0-5, OVER 18 YEARS, 4 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$14,195.71	
Quarters	1,890.00	
Subsistence	574.56	
Tax Advantage ²	765.00	
Imputed Retirement Contribution	922.72	
 TOTAL Gross Pay or Salary	 <u>\$18,347.99</u>	 <u>\$20,514.00</u>
<u>Deductions</u>		
Federal Income Tax ²	\$ 1,770.75	\$ 3,125.65
Tax Advantage ²	765.00	
Social Security Contribution	374.40	374.40
Retirement Contribution	922.72	959.01
 TOTAL Deductions	 <u>\$ 3,832.87</u>	 <u>\$ 4,459.06</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$14,515.12</u>	 <u>\$16,054.94</u>
 VESTED RETIREMENT	 None	 \$ 959.01

¹Reflects 12.6 percent pay raise for FY 1970.

²Assume standard deduction, no additional income.



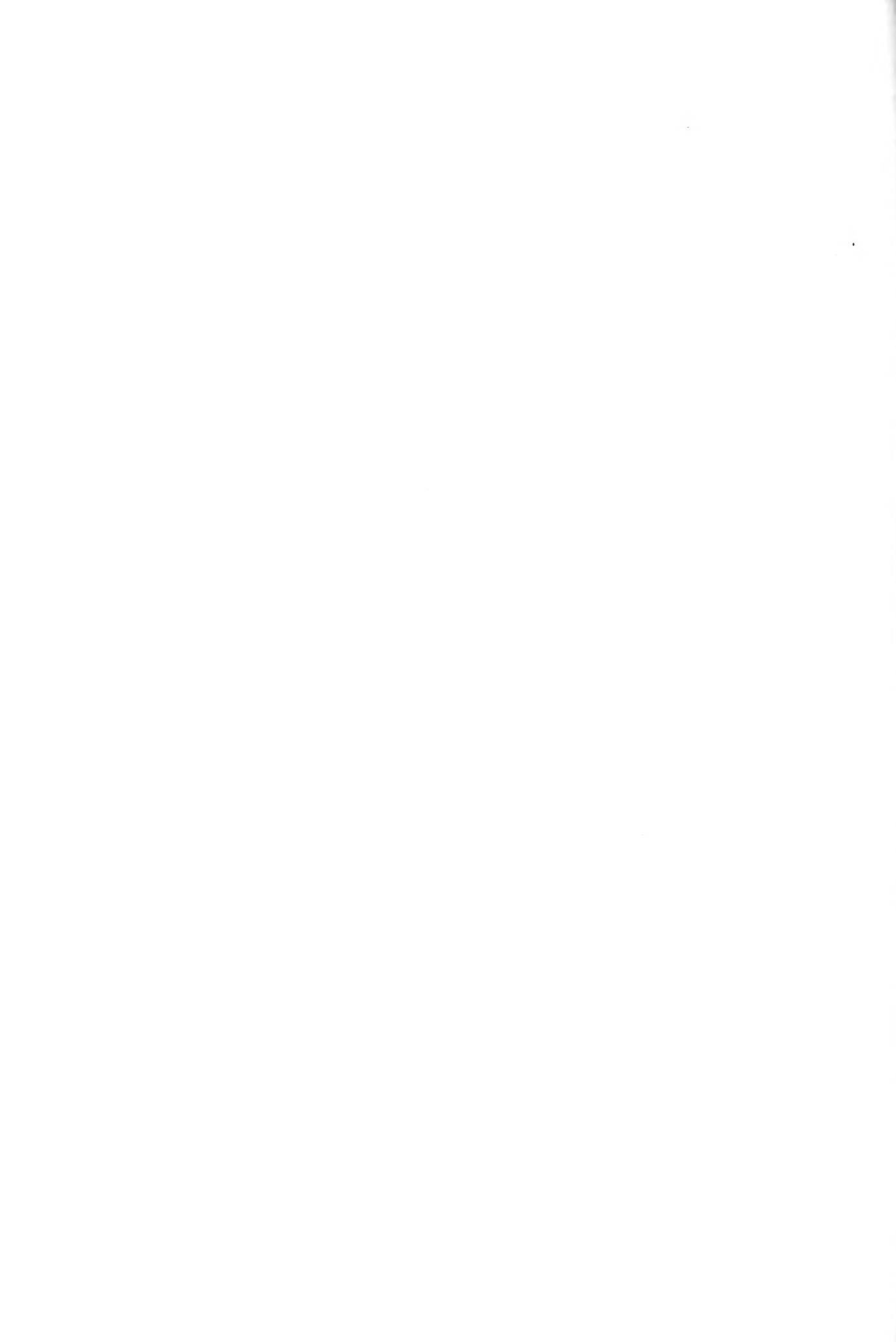
TABLE 16

COMPARISON OF THE TWO PAY SYSTEMS--CAPTAIN
(O-6, OVER 26 YEARS, 4 DEPENDENTS)

	Present System ¹	Salary System
<u>Entitlements</u>		
Basic Pay	\$18,553.32	
Quarters	2,041.20	
Subsistence	574.56	
Tax Advantage ²	936.00	
Imputed Retirement Contribution	1,205.97	
 TOTAL Gross Pay or Salary	 <u>\$23,311.05</u>	 <u>\$26,705.00</u>
<u>Deductions</u>		
Federal Income Tax ²	\$ 2,684.50	\$ 4,711.04
Tax Advantage ²	936.00	
Social Security Contribution	374.40	374.40
Retirement Contribution	1,205.97	1,361.43
 TOTAL Deductions	 <u>\$ 5,200.27</u>	 <u>\$ 6,446.87</u>
 <u>CASH TAKE HOME PAY</u>	 <u>\$18,110.78</u>	 <u>\$20,258.13</u>
 VESTED RETIREMENT	 None	 \$ 1,361.43

¹Reflects 12.6 percent pay raise for FY 1970.

²Assume standard deduction, no additional income.



Because some of the recommended Regular Retired Pay (Step 1) percentages are lower than present retired pay percentages, even when applied to the full salary, some members would take retired pay cuts and others would get large retired pay increases if everyone moved suddenly to the new system with no transition or protection provision.¹ But, to prevent such occurrences, a five year transition period is proposed to gradually phase into the new system without reducing anyone's retired pay.² This provision is an integral part of the proposals.

Table 17 compares typical retirement annuities under the present system with those proposed as a part of the Hubbell Plan. In no instance does it show that a man would receive less under the proposed system than under the present system. Where the amounts under the present system and under Regular Retired Pay (Step 1) of the proposed system are equal, save pay provisions have been applied.

The proposed system is designed to encourage servicemen to remain on active duty beyond 20 years, preferably 30 years. For example, an E-9 would receive \$5,180 per year

¹What Would Military Pay Reform Mean to You?, p. 24.

²Ibid.

TABLE 17

COMPARISON OF PRESENT AND PROPOSED
RETIREMENT SYSTEMS
(ANNUAL ANNUITIES)

Years of Service	Pay Grade	Increased	<u>Proposed</u>	
			Regular ² (Step 1)	Increased (Step 2) ³
20	E-7	\$3,045	\$3,045	\$3,118
21	E-7	3,197	3,197	3,306
22	E-8	4,021	4,021	4,128
23	E-8	4,204	4,204	4,407
24	E-8	4,386	4,386	4,776
25	E-9	5,180	5,180	6,110
26	E-9	5,911	5,911	6,643
27	E-9	6,138	6,138	7,058
28	E-9	6,365	6,365	7,614
29	E-9	6,493	6,628	8,037
30	E-9	6,820	6,895	8,460
20	O-5	6,629	6,629	6,979
21	O-5	6,960	6,960	7,402
22	O-5	7,549	7,549	8,059
23	O-6	8,917	8,917	9,934
24	O-6	9,304	9,304	9,304
25	O-6	9,692	9,692	9,692
26	O-6	10,935	10,935	10,935
27	O-6	11,356	11,356	11,356
28	O-6	11,776	11,895	11,895
29	O-6	12,197	12,395	12,395
30	O-6	12,617	12,898	12,898

¹Includes the 2.1 percent cost of living increase authorized for July 1968 to June 1969 retirees.

²Save pay provision is applied where the regular annuity is equal to the present annuity.

³Annuities are full amounts after the five year transition period.



Source: U.S., Department of Defense, Office of the Assistant Secretary of Defense (Manpower and Reserve Affairs), What Should Military Pay Reform Mean to You? (Washington, D.C.: Government Printing Office, 1969), p. 23.

under Step 1 and \$6,110 per year under Step 2 if he would retire after 25 years service. If he would remain another 5 years, his Step 1 annuity would be \$6,895 and his Step 2 annuity would be \$8,460.

Another example is the O-6. If he retires after 23 years service, his Step 1 annuity would be \$8,917 and his Step 2 annuity would be \$9,934. If, however, he remained on active duty to complete 30 years service, his Step 1 annuity would be \$12,898 and his Step 2 annuity would be \$16,490. Both of these examples show sizable increases in retired pay for staying beyond 20 years service. The proportional increase would be much greater under the proposed system than it is under the present system.

No Pay Reductions

Admiral Hubbell has stressed that no member will take a pay cut.¹ While it is true that every member will get an increase in relation to existing pay if the salary system is

¹Ed Gates, "Hubbell Retirement Details Told, Plan's Support Sought as Cost Rises," Navy Times, Dec. 4, 1968, p. 14.

implemented, some members (such as the E-5 with over 8 years discussed in this paper) would benefit more from the 12.6 percent across-the-board pay raise than from implementation of the salary system. Members who fit into this category, however, total less than 5 percent of the career force.¹

This means that for every one man who would benefit more from implementation of the 12.6 percent raise vice the salary system, nineteen would continue to be underpaid. It is not just to hold the pay of nineteen men below the comparability standard so that one man can benefit by being paid above the standard.

¹What Would Military Pay Reform Mean to You?, p. 15.

CHAPTER IV

PROBABLE IMPACT ON RETENTION

Clarification of the Retention Problem and Retention Objective

The problem refined

Prior to evaluating the probable impact of the Hubbell Plan on retention, it is necessary to clarify the Navy's retention problem and the objectives of the solutions to the problem.

The Navy's retention problem, as it is generally understood, is derived from a chain of logic as follows: there is a shortage of experienced men that is ¹causing ²operational difficulties in the fleet; this shortage is due to inadequate retention; therefore, retention must be improved. This logic is incomplete because it ignores the fact that overall measures of shortages and retention do not in themselves provide a completely meaningful basis for either defining or solving the retention problem.

A complete statement of the problem must include a quantitative description of deficiencies in specific job

specialties as well as a complete qualitative description of deficiencies in terms of experience and training.

The quantitative problem is serious. Although there are differences between stated requirements and numbers of people available in nearly all job specialties and pay grades, in many, the situation is so badly out of balance as to indicate the existence of shortages to the extent that the operational level of the fleet is less than it should be.¹

Qualitatively, the problem is equally acute. The need for middle grade personnel, combined with the inability of the Navy to retain a sufficient number beyond obligated service, has tended to reduce selectivity and resulted in the promotion of less than high quality individuals. There has been only token attrition (due to career stagnation) of career personnel prior to completion of twenty years service.²

The advance of technology is further aggravating the problem. In the past twenty-five years, the Navy has introduced sophisticated automatic weapons and propulsion systems to replace the outdated manual methods. Constant qualitative

¹Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. I, Ch. 2, p. 1.

²Ibid, p. 8.

improvement is clearly required to accommodate this advancing technology.

Qualitative improvement depends not only on an increase in selectivity, but also on improved personnel management in areas of training, utilization, career planning and promotion.

Contrary to popular opinion, increased retention would result in an increase in dollar costs if the total force remains constant and present personnel management practices are continued.¹ Decreases in training costs and operational costs resulting from increased productivity would, under present personnel management practices, be overcome by higher costs for pay and retirement compensation due to increased seniority and the increased number of retirees.

These facts emphasize the necessity for careful evaluation and definition of retention goals. The retention of more people than needed and the lack of programmed attrition short of retirement will not only result in higher costs; it will also result in training more men than can be effectively utilized, thereby producing promotion stagnation accompanied by

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 150.



frustration for the individual and resurgence of retention problems.

On the other hand, insufficient retention leads to a high turnover of personnel without the Navy getting an adequate return on its investment; insufficient retention also leads to force instability and lower effectiveness.¹

The requirement for highly trained and experienced personnel in the Navy continues to grow. The failure to retain sufficient numbers has resulted in inadequate fleet readiness. The high turnover rate resulting from a declining re-enlistment rate seriously reduces the average experience level in the fleet. The result is an upswing in material casualties through lack of adequate maintenance.²

The objective

The Navy's primary retention objective as defined in the Bureau of Naval Personnel Manual (NAVPERS 15791A - Rev-1959) is:

. . . to develop and maintain a highly motivated and well qualified career personnel cadre. It is, therefore, essential the members selected for continuation in a Navy

¹Report of the Secretary of the Navy's Task Force on Navy/Marine Corps Personnel Retention, Vol. I, Ch. 2, p. 10.

²Ibid, p. 11.

career have demonstrated certain minimum capabilities or potential . . .¹

The basic assumptions that accompany this broad objective are:²

Personnel who create management problems, for whatever reason, even though they meet performance criteria, should not be continued in the Navy without individual determination.

Re-enlistment quality control will enhance retention by identifying the problem personnel and the least productive performers who have a negative influence on others.

A centrally controlled selective re-enlistment program based on specific requirements in all ratings in which qualitative and quantitative strength to requirement balance has been achieved will upgrade the career cadre.

Extensive research is being conducted as to the means to be employed to attain this broad objective. The basic requirements are the appropriate incentives that will make a Navy career attractive to more people, thereby improving selectivity, and a personnel management system that can convert this selectivity into an optimum Naval force. The Hubbell Plan, many people believe, would produce incentives that would increase selectivity.

¹Ibid, Ch. 3, p. 1.

²Ibid, p. 2.



↑ 2

What the Hubbell Plan Can Do For Retention

Effectiveness and efficiency

Two of Schleh's rules relating to getting more incentive into pay are: (1) Make pay current; and (2) Make pay appear fair to the man.¹ The first rule indicates that pay should reflect current, not past situations. The second rule cautions that management often feels that their pay plan is fair; however, to get real incentive, the employee has to feel it is fair. In other words, make sure the pay plan is fair, but also, sell that fairness to the men.

The Hubbell Plan has shown that the military pay system is ~~not~~ fair; it is inequitable, and it lags behind the civilian systems in the level of pay. In addition, military pay is so complex and confusing that it is difficult to determine what a man's pay really is. Military pay violates both of the basic rules mentioned in the first paragraph. Therefore, it is an inefficient system that has a negative effect on career motivation. Herzberg has labeled factors of this type "dissatisfiers" which operate to produce both low productivity and negative attitudes when they are not equally administered.²

¹Edward C. Schleh, Executive Management of Personnel (Englewood Cliffs, N.J.: Prentice-Hall Inc., 1958), pp. 61-2.

²Frederick Herzberg, Bernard Mausner, and Barbara

The Hubbell proposals would increase the visibility, credibility and amount of pay. Visibility would come from eliminating the vast assortment of pays and allowances and replacing them with annual salary. Credibility would result from adoption of a quantitative standard to facilitate meaningful comparisons of pay. The increase in the amount of pay would come from an adjustment to close the gap between military pay and civilian salaries. The result would be the elimination of a "dissatisfier"--a negative influence on retention. Simple logic indicates that removal of a negative force would result in a positive change.

While the direction of the influence is clear, the extent is not. The amount of increased retention is a function of the size of the perceived pay raise which, in turn, is a function of both the increased visibility of pay and the size of the pay increase.

The research surveys summarized in Chapter I showed that pay is a primary consideration in choosing a Navy career. Therefore, ^{then,} the Hubbell proposals could be reasonably expected to help attract, retain and motivate to the career force more of the kinds and numbers of career people the Navy needs. The



net effect would be an increase in the effectiveness and efficiency of a stable size force. The Navy would be able to increase the size of its force committed to operational (non-training) activity, attain more nearly the desired force structure in terms of years of service, and improve its quality level. This increase in size and quality would clearly increase the effectiveness and efficiency of the operating forces. The extent of the increase is not as clear and could not be estimated until better information is available.

Selective retention could be effectively utilized as career attractiveness is enhanced. Selective pre-retirement release of personnel from the career force in substantial numbers would be facilitated by the vested retirement contribution proposals which would augment separation pay.

The Hubbell proposals promise a more effective and efficient Naval force because the operational part of the force would be larger, better tailored to experience needs, and made up of higher quality personnel.

Cost effectiveness

A major issue, especially in Congress will be, "Would the increased effectiveness be worth the cost of attaining it?" Quantifying the increased effectiveness and the costs involved

is beyond the scope of this paper. It is valid to assume, however, that if the extra costs involved were modest, then the recommendations would likely be cost effective. If no extra costs were involved or if actual cost savings could be expected, then the recommendations would be clearly cost effective, regardless of the exact amount of any effectiveness.

Four major cost implications would be involved:

1. First term training and associated turnover costs would decline as additional continuations permit reductions in inputs.
2. Active force compensation costs would rise as the force becomes relatively more senior and draws higher salary rates.
3. Separation payments would increase as force managers generate the extra attrition necessary to attain a balanced Naval force in years of service.
4. Retirement costs will decline if fewer people enter the retired rolls as more are separated after optimum career lengths short of retirement.¹

Only the first two results would occur if no changes are made to present personnel management practices. Personnel managers must effect adequate selectivity practices to tailor the Naval force before the latter two results would occur.

If the Hubbell proposals are adopted, a thorough review of manpower requirements will be required to define the optimum force under the new structure. Until such a review

¹Modernizing Military Pay, Vol. I, Active Duty Compensation, p. 150.



is completed, the long range cost implications of attaining an optimum Naval force cannot be determined.

What the Hubbell Proposals Cannot Do for Retention

The heart of the Hubbell proposals is the assumption there is a positive correlation between the magnitude of military personnel shortages and the inadequacies of the present military pay system. The Navy research studies on retention discussed in Chapter I lend validity to this assumption. Therefore, the implication is that retention ills can be cured by paying servicemen adequately via a credible and visible pay system so that they know their pay is on a par with that of civilians.

The thinking behind the Hubbell Plan is directly related to the "rational economic man"¹ theory upon which Adam Smith built his now partially discredited doctrine. The basis for the theory is primarily supply and demand. The assumptions that accompany it are: (1) man is primarily motivated by economic incentives, and (2) since economic incentives are controllable by management, man is a passive agent that can be manipulated and motivated by the organization at will.²

¹ Edgar H. Shcein, Organizational Psychology (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1965), p. 48.

² Ibid.

This thinking is also related to the assumption in McGregor's "Theory X"--that man is inherently lazy and must therefore be motivated by outside incentives.¹

Department of Defense and Navy officials who believe that the Hubbell proposals would solve all of the retention problems are advocating these two theories. Fortunately, the Navy is not placing complete reliance on the Hubbell Plan as a solution to retention problems; its many career programs attest to that. Indications are, however, that many Navy managers expect more of an improvement than should be reasonably expected. The Hubbell staff has discussed possible improvements in retention of from 32 to 88 percent for enlisted personnel and 20 to 75 percent for officers.² These figures seem to indicate that compensation is either the only factor or by far the most important factor in motivating men to choose a Navy career.

Despite the assumptions and the supporting research, the importance of pay as an incentive to motivate increased retention is questionable. It appears that the complete

¹ Douglas McGregor, The Human Side of Enterprise (New York: McGraw-Hill Book Company, 1960), p. 15.

² Modernizing Military Pay, Vol. I, Active Duty Compensation, pp. 146-8.

problem of the importance of pay in personnel administration has not been dealt with. Wolf expressed it well when he said:

The essence of the problem of wage administration is that wages are judged by so many criteria of fairness and justice that there is no one uniform standard for evaluating them. Moreover, in our society wages are a socially accepted subject of complaint, so that many less tangible dissatisfactions may be expressed as complaints over wages. Thus, we must recognize that wage administration at its best may involve finding approximate solutions to insoluble problems.¹

This analysis is applicable to the military as well as civilian industry. It leads to an important question, "Is pay dissatisfaction a major cause of poor retention or is it merely masking the real but less tangible causes?"

Pay is only one factor in motivation. Therefore a more valid motivational doctrine than the "rational economic man" theory is the "self-actualizing man" theory supported by such eminent scholars in the field as Argyris, McGregor and Maslow.² McGregor's contribution is his "Theory Y" which implies that man is an organic system whose behavior is affected not only by external forces (such as pay) but by intrinsic forces as well.³ Another part of the "self-

¹William B. Wolf, The Management of Personnel (San Francisco: Wadsworth Publishing Co., Inc., 1961), p. 182.

²Schein, Organizational Psychology, p. 56.

³Douglas McGregor, The Professional Manager, ed. by



actualizing man" theory is Maslow's contention that man's motives fall into classes which are arranged in a hierarchy: (1) simple needs for survival, safety and security; (2) social and affiliative needs; (3) ego-satisfaction and self-esteem needs; (4) needs for autonomy and independence; and (5) self-actualization needs.¹ The implication is that extrinsic rewards (such as pay) will satisfy only the lower level needs and, as these needs are satisfied, man will strive to satisfy higher level needs with satisfaction being represented by intrinsic (intangible) rewards.

Acceptance of this theory carries with it the realization that pay plays a role only in the satisfaction of low level security needs and that other needs must be dealt with to attain total satisfaction. By relating this theory to retention, the implication is that the Navy must compete with private enterprise to satisfy monetary earning needs as well as to satisfy the other needs in the hierarchy such as those for ego-satisfaction and self-actualization.

Further evidence to support advocating this theory as applicable to the Navy comes from Herzberg's work on the

Warren G. Bennis and Caroline McGregor (New York: McGraw-Hill Book Company, 1967), p. 80.

¹Schein, Organizational Psychology, p. 56.

relationship between satisfaction and productivity. He found that when employees feel they are fairly rewarded, increasing the rewards further has only a modest effect on satisfaction.¹ The suggestion is that pay is highly important, but primarily in a negative sense--when it is a "dissatisfier."

As discussed earlier, the present pay system is inadequate and works as a "dissatisfier" having a negative influence on motivation and consequently retention. However, doubts have been raised as to the validity of the assumption that expressed complaints about pay are "in fact" genuine complaints about pay and not other factors in the Navy environment.

In addition, it has been shown that pay is an important factor in motivation (and consequently retention) only when it is perceived as being inadequate by the recipients. It follows then, that removal of pay as a "dissatisfier," removes it as a retention issue.

Improving the military pay system by adopting the Hubbell Plan would probably improve retention, but only to the extent that pay is actually a retention issue and then only

¹Douglas McGregor, Leadership and Motivation, ed. by Warren G. Bennis, Edgar H. Schein, and Caroline McGregor (Cambridge, Mass.: M.I.T. Press, 1966), pp. 257-9.

to the degree of its negative influence. If these factors are great, improvement will be great; if it is modest, improvement will be modest.

If the desired level of retention in the Navy is to be realized there must be improvement in the administration of extrinsic rewards (pay is but one) which are associated with physiological needs. In addition, there must be improvement in the nature of Naval environment that will allow men to obtain the intrinsic rewards associated with high-level ego and self-actualization needs.

In addition, the Navy must consider the possibility that pay complaints are not pay complaints at all, but expressions of dissatisfaction with some other element of naval life. The Navy must identify and deal with the problem areas if retention is to be improved considerably.

Improving the pay system would improve retention, but since pay is only part of the retention issue, it can be only part of the answer.

CHAPTER V

SUMMARY AND CONCLUSIONS

The Navy's personnel retention problem is real. The problem is not only the commonly understood one of insufficient numbers, it is also one of insufficient quality in the career force. The ever increasing role that our Navy plays in this country's commitment to peace and freedom in the world has made the problem more acute. To compound the problem, the dynamic advancement of technology has and will continue to place increased demands on the ^{disposition} quantity and quality of our naval forces. And yet, at a time when the retention of high calibre personnel is ^{acknowledged to be} vitally important, ~~to the security of the free world,~~ retention is declining.

^{the dilemma} The problem is caused by ^{improvement} poor personnel management and a series of meaningless "stop-gap" measures to improve retention. The only result of most of these actions has been to convince servicemen that they are being treated unfairly. The plight of the sailor is akin to that of the British soldier when Rudyard Kipling ¹ wrote his poem "Tommy."

¹Rudyard Kipling, Collected Verse of Rudyard Kipling



You talk o' better food for us, and schools, an'
 fires, an' all:
 We'll wait for extry rations if you treat us
 rational.
 Don't mess about the cook-room slops, but prove
 it to our face
 The Widow's uniform is not the soldier-man's
 disgrace.
 For it's Tommy this, an' Tommy that, an' "Chuck
 him out, the brute!"
 But it's "Savior of 'is country" when the guns
 begin to shoot;
 An' it's Tommy this, an' Tommy that, an' anything
 you please;
 An' Tommy ain't a bloomin' fool--you bet that
 Tommy sees!

The problem is then ^{becomes;} "What does Tommy see?" If Tommy
^{doubtless}
 were a sailor he would probably see a life of privation,
 arduous duty, hazardous working conditions, family separations
 and inadequate pay.

The Navy has been concerned with pay as a cause of in-
 adequate retention for several years because most of the recent
 surveys have indicated that pay is a major factor in motivating
 a man to choose a Navy career. Finally, in 1965, the Congress,
 the President and the Department of Defense recognized the
 problem and directed a review of military pay--not only the
 rates, but the concepts as well.

In the course of the review which became known as the
 "Hubbell Study," it again became apparent that pay is a source
 of dissatisfaction in the military and the cause of the problem

is an outdated, confusing, complex and inequitable pay system. A comparison between military and civilian pay showed that military pay does ^{indeed} lag behind civilian pay. Men are just not willing to subject themselves to a life of hardship and suffer an economic penalty as well. Pay, then, is a cause of inadequate retention.

The Hubbell Plan was constructed to improve the pay system with the expectation of improving retention. ~~The Plan~~ focuses on improving the visibility of pay by converting to a salary system, the credibility of pay through the application of a quantitative standard, and the equitability of pay by removing all but longevity and pay grade criteria for determining rates. In addition, the ^{Plan's} ~~Hubbell~~ proposals include improving the retired pay system so that it compensates a man more realistically in his post-military life.

In addition to improving the pay system, the Hubbell Plan recommends a pay raise that will bring military pay to parity with Federal civilian pay. For most men, this increase would mean an additional pay raise above the 12.6 percent across-the-board increase that is law and will go into effect if the Hubbell Plan is not enacted.

The Hubbell Plan is sound, and it would definitely improve the military compensation system. There is little doubt

that it would improve retention in the Navy. ^{Yet} While the direction of the influence is certain, the extent of the influence is not, and would probably only be known several years after implementation of the Plan.

There is an indication that Department of Defense and Navy officials are putting too much emphasis on the Hubbell Plan as a cure for retention ills. This paper has shown that people often include pay as a source of dissatisfaction because "it's the thing to do." This implies that the surveys showing pay as the major issue in retention might be distorted.

Even if pay is "in fact" the major issue in improving retention, Maslow's "Hierarchy of Needs" theory is still applicable. Servicemen will not be completely satisfied until they are given the opportunity to satisfy their high level achievement needs. If these opportunities are not available, retention will not appreciably improve.

Nevertheless, the Hubbell Plan would be a positive step forward in improving retention because it will remove a "dissatisfier." However, the Navy must take another look at all aspects of the retention program. When "Tommy" sees that pay is adequate, he will be looking higher on the "hierarchy" ladder and the Navy must be prepared there as well.

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